

VZCZCXYZ0013
RR RUEHWEB

DE RUEHBU #1676/01 3451714
ZNR UUUUU ZZH
R 101714Z DEC 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 2654
INFO RUCNMER/MERCOSUR COLLECTIVE

UNCLAS BUENOS AIRES 001676

SENSITIVE
SIPDIS

FOR REPRESENTATIVE MEEKS FROM AMBASSADOR E. ANTHONY WAYNE
DEPARTMENT FOR H AND WHA/BSC

E.O. 12958: N/A
TAGS: [OVIP](#) [CODEL](#) [ECON](#) [PREL](#) [BEXP](#) [AR](#)
SUBJECT: ARGENTINA: SCENESETTER FOR CODEL MEEKS

11. (SBU) Introduction: On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina December 16-18. With the administration of President Cristina Fernandez de Kirchner, we are looking to build on a strong and positive bilateral relationship. We are working together in significant areas of mutual interest and cooperation in counter-terrorism, counter-narcotics and regional stability. During your meetings with President Kirchner, senior cabinet members, and the congressional leadership, you will have the opportunity to discuss a range of bilateral and regional issues and reinforce our positive agenda as well as to give some gentle nudges of areas where we look for improved cooperation. End Introduction.

Political Context

12. (SBU) You arrive shortly after Cristina Fernandez de Kirchner (CFK) will have completed her first year as president, having taken office on December 10, 2007. She succeeded her husband, Nestor Kirchner, who retains a high profile in government policy and decision-making. CFK has a decades-long history in politics, having served in the Chamber of Deputies and most recently in the Senate. She won the 2007 presidential election with 45% of the vote over a sharply divided opposition. Having campaigned on the seemingly contradictory themes of change and continuity, she retained most of her husband's cabinet and much of his confrontational style. During her first year in office, she suffered a severe drop in popularity and approval ratings, which now hover in the high 20s, due in large part to her handling of the protracted March - August conflict with the very popular farming sector over a government proposal to increase export duties on soy and other agricultural products. In coping with the sudden downturn in global commodity prices that had fueled Argentina's 2002-2008 economic recovery, CFK's major policy challenges will be to maintain employment levels, attract and boost investment, and restore a sense of law and order to an electorate increasingly concerned about crime and security. She faces congressional elections in October 2009.

13. (SBU) Bilateral relations are strong but underwent a rough patch in December of last year. Two days after CFK was inaugurated, the GOA misinterpreted and over-reacted to news reports concerning a federal case in Miami against some Venezuelans and an Uruguayan who were arrested on charges of operating and conspiring to operate in the United States as agents of the Venezuelan government without notifying the Attorney General as required by law. The accused were recently convicted and are just now being sentenced. During the proceedings in Miami, allegations surfaced that undeclared cash brought into Buenos Aires in August 2007 from Venezuela had been destined for the presidential campaign. The statements were not made by the USG, but rather by one of

those arrested. They were misinterpreted here as reflecting the USG's views.

¶4. (SBU) President Fernandez de Kirchner reacted angrily to the allegation that she had been the intended recipient of the cash that was intercepted by GOA airport officials. She publicly interpreted the Miami arrests as directed against her government and characterized the case as a "garbage operation." Her ministers and the Argentine Congress made similar statements. However, the rhetoric gradually subsided, and the relationship normalized due to a great deal of behind-the-scenes work. We agreed at the end of January to put the case aside and to work to strengthen bilateral cooperation, which we have done in part by reviving a special consultative process that has already resulted in agreements in new areas such as alternative energy, nanotechnology, and national park administration. We also agreed to promote greater parliamentary exchanges, so your visit will help in that regard. However, during the trial of the only defendant not to plead guilty in Miami, the government remained standoffish to close public cooperation with us as the allegations that the money was for CFK's campaign were repeated and amplified. The local Argentine investigation into this remains stalled and they seek the extradition from the U.S. of the prime prosecution witness in the Miami trial.

Economic Context

¶5. (SBU) Argentina, once one of the richest countries of the world, has experienced much economic decline and political instability over the last 70 years, culminating in a profound political and economic crisis of 2001-2002 that was comparable to our Great Depression. A financial panic in November 2001 led to bloody riots, forcing President De La Rúa to resign. Argentina defaulted on \$88 billion in debt, the largest sovereign debt default in history. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, fertile land, and low population density, fell so far short of its potential. Some blame the military dictatorships, which predominated between 1930 and 1983; others blame corruption and a series of populist measures taken since 1944; and a significant number of Argentines blame external factors, particularly the IMF and alleged U.S. insensitivity to their plight.

¶6. (U) Argentina's economy sustained a robust recovery following the severe 2001/2002 economic crisis, with five consecutive years of over 8% real growth in gross domestic product (GDP). Argentine GDP reached U.S. \$ 261 billion in 2007, approximately U.S. \$ 6,630 per capita, with investment increasing an estimated 14.4% for the year and representing approximately 23% of GDP. The economic expansion created jobs, with unemployment down from over 21% in 2002 to 8.0% in the second quarter of 2008. Poverty levels also dropped. According to government statistics, 20.6% of the population in the 28 largest urban areas remained below the poverty line in the first quarter of 2008, down from over 50% in the immediate aftermath of the economic crisis.

¶7. (U) Argentina benefits from rich natural resources, a highly educated population, a globally competitive agricultural sector, and a diversified industrial base. Argentina's post-crisis move to a more flexible exchange rate regimen, along with sustained global and regional growth, a boost in domestic aggregate demand via monetary, fiscal, and income distribution policies, and favorable international commodity prices and interest rate trends were catalytic factors in supporting renewed growth between 2003 and 2007. The economic resurgence also enabled the government to accumulate substantial official reserves (over \$45 billion as of early November 2008) to help insulate the economy from external shocks. A higher tax burden, improved tax collection efforts, and the recovery's strong impact on tax revenues supported the government's successful efforts to maintain primary fiscal surpluses since 2003.

¶8. (U) Argentina has continued to perform well in 2008, with full-year real GDP growth projected at about 7%, according to the Argentine Central Bank's consensus survey. A range of economic experts have identified challenges to sustaining high levels of economic growth in the future, including capacity constraints; the need for substantial new investment in primary infrastructure; potential energy shortages in the face of high growth and energy prices maintained by the government below international market levels. Other challenges include the increasing scarcity of skilled labor, inflation (8.5% in 2007 according to official statistics, but estimated by independent analysts to be significantly higher), and the heterodox policies employed to contain inflation. These include pressure on the private sector to limit price increases on some consumer goods, delays in the renegotiation of public service tariffs, export trade taxes and export bans. Recent global financial turmoil and rapid declines in world commodity prices also threaten Argentina's ability to continue its rapid rate of economic expansion. The government has recently introduced a series of measures to stimulate the economy and maintain jobs.

¶9. (U) Argentina's exchange rate policy is based on a managed float, and the 2009 budget estimates the average exchange rate at 3.19 pesos to the dollar. Market analysts have considered the pesos's real exchange rate undervalued in previous years, though it is now under substantial pressure and has depreciated significantly in recent weeks, currently trading around 3.46 pesos to the dollar. The previous undervaluation, along with historically high global commodity prices, helped lift export volumes and values to record level, resulting in an \$11.2 billion trade surplus in 2007. Foreign trade was approximately 39% of GDP in 2007 (up from only 11% in 1990) and plays an increasingly important role in Argentina's economic development. Exports totaled approximately 21% of GDP in 2007 (up from 14% in 2002), and key export markets included MERCOSUR (23% of exports), the EU (18%) and NAFTA countries (11%).

¶10. (U) Two-way trade in goods with the U.S. in 2007 totaled about \$9.7 billion (according to both U.S. and Argentine government statistics). Total two-way trade in services in 2007 was \$4.0 billion (according to the Bureau of Economic Analysis, U.S. Department of Commerce). The production of grains, cattle, and other agricultural goods continues to be the backbone of Argentina's export economy. High technology goods and services are emerging as significant export sectors. A decline in global commodity prices and slower global growth levels in the second half of 2008 is expected to reduce Argentina's trade surplus levels in the medium term.

¶11. (U) Nearly 500 U.S. companies are currently operating in Argentina, employing over 155,000 Argentine workers. U.S. investment in Argentina is concentrated in the manufacturing, information, and financial sectors. Other major sources of investment include Spain, Chile, Italy, France, Canada, Japan, and Brazil. Continuing Argentine arrears to international creditor and a large number of arbitration claims filed by foreign companies are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely impact Argentina's investment climate. Outstanding debts include over \$20 billion in default claims by international bondholders and between \$7 and 8 billion owed to official creditors. President Cristina Fernandez de Kirchner announced in September 2008 that the government intends to pay debts to Paris Club creditors using Central Bank reserves. She further announced that the government would consider a proposal from private banks on the settlement with international bondholders of untendered Argentine government debt. These plans were temporarily shelved by mid-October because the global financial crisis closed off international financing that Argentina had hoped to attract from its initiative. The government recently approved to nationalize Argentina's private pensions system, which affects two U.S. companies who had been running pension businesses. The government has also recently accused a U.S. energy firm of violating Argentine law.

Anti-Americanism, Bilateral Relations, Strategic Goals

¶12. (SBU) The greatest overall challenge we face in Argentina is the high level of anti-Americanism in the Argentine public. Argentina consistently registers the highest levels of anti-Americanism in the hemisphere in public opinion polls. Working to change these perceptions is the Embassy's highest priority. We believe we have found a formula for success through substantially increased media outreach, focused attention on youth, and augmented involvement with NGOs and community activities. We seek to use all available resources, from visiting American rock groups and sports heroes to Nobel Prize winners and U.S. companies, to carry the positive agenda forward.

¶13. (SBU) Argentina maintains positive political relations with the United States, but there is room for further improvement. One of the major tasks facing the Embassy is forging relationships of trust with a government that has been largely inward-focused and intent on maintaining an image as independent from our country. In lobbying the GOA, it can be counter-productive to push an issue too aggressively and especially in public. Argentine officials react very negatively to perceived affronts their sovereignty, often winning public support for their strong reactions. Shut off from other sources of international financing, the GOA has turned to Hugo Chavez to place large bond issues, totaling billions of dollars.

¶14. (SBU) Argentina, nevertheless, holds Major Non-NATO Ally status and cooperates in regional security, counter-terrorism, drug interdiction, nonproliferation and in contributing troops to U.N. peacekeeping missions. The GoA has been a strong international voice on arms control and nonproliferation issues. In the IAEA, the GoA has voted to refer Iran's noncompliance to the UNSC. The GoA has also endorsed the Proliferation Security Initiative (PSI) and the Global Threat Reduction Initiative (GTRI). Recently, Argentina and the U.S. co-hosted in Buenos Aires a gathering of all OAS States to look for ways to better implement UN resolution 1540, which is aimed at keeping WMD from terrorists. It is under the banner of science that the USG and Argentina have realized some of the best examples of bilateral cooperation, and we have a long history of aerospace cooperation with Argentina.

Promoting U.S. Economic/Commercial Interests

¶15. (SBU) In support of U.S. companies operating in Argentina, we are encouraging the GoA to support a more welcoming investment climate, with greater regulatory, legal, and tax regime consistency. We expend a good deal of effort supporting and working with U.S. companies. We are working closely with the GoA and the Paris Club of sovereign creditors to resolve longstanding arrears to the USG and are encouraging the GoA to resolve claims of U.S. holders of defaulted Argentine bonds. Regarding ongoing WTO trade negotiations, Argentina has staked out a hard-line position that links acceptance of developed economy agricultural sector proposals with more developing nation flexibility on industrial tariff cuts. We have been urging them to adopt a more constructive approach.

Trafficking in Persons (TIP)

¶16. (SBU) Argentina is on the USG's Tier-2 Watchlist for lack of progress in providing greater assistance to victims and curbing official complicity in trafficking at the provincial level. However, the legislature recently passed fairly comprehensive anti-TIP legislation that makes TIP-related violations a federal crime. Argentina is a source, transit,

and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labor. According to the International Organization for Migration, 80 percent of trafficking victims in Argentina are Argentine, most of whom are trafficked for the purpose of sexual exploitation. Bolivians and Peruvians are trafficked into the country for forced labor in sweatshops and agriculture. Argentine efforts to combat trafficking have focused on prevention and training of security and government officials. One of our key goals this year is to support a vigorous GoA implementation of the new federal law and promote the prosecution of human traffickers.

However, a number of NGOs have criticized this new law as weak on the issue of adult "consent," but the Justice Ministry has been vigorous in arresting traffickers and freeing victims in recent months.

Democracy and Rule of Law

¶17. (SBU) We work with the GoA, media, and civil society to strengthen democratic institutions, fight corruption, and reinforce civilian control of the military. We promote key reform efforts such as ending the election of representatives by party slate lists, increasing governmental transparency, and limiting public corruption and strengthening the political independence of the judicial branch. While we do not succeed on every issue, we continue to cultivate the GoA as a cooperative partner in multilateral fora, and seek Argentina's cooperation in the defense of democracy and the observance of human rights in countries like Cuba, Venezuela, and Bolivia, as well as UN peacekeeping in Haiti.

Human Rights

¶18. (SBU) The Government of Argentina generally respects the human rights and fundamental freedoms of its citizens. The Kirchner government's human rights policy focuses on seeking justice for the human rights violations committed during the 1976-83 military dictatorship, which resulted in the disappearance of between 11,000-30,000 leftist guerrillas and political dissidents. It does not, however, focus on bringing to justice armed guerrilla groups who also committed human rights abuses during the same period (known as "the Dirty War"), albeit on a much smaller scale. To date, the courts have convicted three former officials of the military regime, including a military chaplain. We recently returned one person sought here for human rights violations and another individual wanted by the GoA remains in Florida. Argentines are also concerned about one particular citizen on death row in Texas. Argentina is a strong international advocate for human rights and the USG and GOA generally cooperate on human rights issues in international and regional fora.

International Crime and Drugs

¶19. (SBU) Argentina is a transshipment and destination point for narcotics emanating largely from Colombia, Peru, Bolivia, and Paraguay. With its large chemical and pharmaceutical industries, Argentina is also a major source and destination for precursor chemicals. Argentine law enforcement agencies cooperate closely with their USG counterparts on drug interdiction efforts, fugitive arrests, and information sharing, which has resulted in increased enforcement. This Mission is focused on institutional capacity-building and expanding training opportunities for law enforcement officials, prosecutors and judges in order to improve internal security and decrease international drug and criminal activity in Argentina. Justice Minister Fernandez has repeatedly stated that he wants to put top priority on attacking drug traffickers and less priority on arresting individual users. The Supreme Court President is working

hard to increase judicial independence and efficiency.

Terrorism

¶20. (SBU) Former President Nestor Kirchner's administration strongly supported counter-terrorism policies during his time in office, and his wife and successor CFK has continued the cooperation. Argentina was itself a victim of international terrorist attacks in the 1990s and has been a cooperative partner in countering terrorism, especially in the Tri-border Area. On November 7, 2007, Argentina succeeded in getting Interpol's General Assembly vote to issue international capture notices for five current and former Iranian officials and one Lebanese Hizballah member (who was reportedly killed in Syria February 13) wanted in connection with the 1994 terrorist bombing of the Buenos Aires Jewish Community Center (AMIA).

¶21. (SBU) Argentina cooperates with the United Nations, the OAS, its neighbors, and the United States on a number of counterterrorism initiatives. We assist the GoA in capacity-building, within the restraints created by Brooke Amendment sanctions, to strengthen Argentine law enforcement forces. We also work closely with the Argentine military on modernization, increasing interoperability, and training and education focused on civilian control, respect for human rights, defense resource management, strategic planning, and science and technology. Argentina has a leading role in the OAS Inter-American Committee Against Terrorism (CICTE), established on Argentina's initiative in the 1990s. Argentina has ratified all of the 12 international counter-terrorism conventions and has been an active participant in the 3 plus 1 tri-border area counterterrorism mechanism, which met most recently in Asuncion, Paraguay in January. The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000.

WAYNE